

**GREENVILLE
PUBLIC SCHOOLS
Ionia, Kent, and Montcalm
Counties, Michigan**

Comprehensive Annual Financial Report

For the year ended June 30, 2006

GREENVILLE PUBLIC SCHOOLS
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For the year ended June 30, 2006

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FINANCIAL SECTION

Hungerford, Aldrin,
Nichols & Carter, P.C.
CPAs AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

October 27, 2006

The Board of Education
Greenville Public Schools

We have audited the accompanying financial statements of the governmental activities, the major funds and the aggregate remaining fund information of Greenville Public Schools (the "District") as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's elected officials and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the major funds and the aggregate remaining fund information of Greenville Public Schools as of June 30, 2006, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2006 on our consideration of Greenville Public Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of Greenville Public Schools. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hungerford, Aldrin, Nichols & Carter, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

GREENVILLE PUBLIC SCHOOLS
Management's Discussion and Analysis
June 30, 2006

As management of the Greenville Public Schools ("the District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which immediately follow this section.

Overview of the Financial Statements

This annual report consists of three parts: Management's Discussion and Analysis (this section), the Basic Financial Statements and Supplemental Information. The Basic Financial Statements include two kinds of statements that present different views of the District:

- The first two statements, the Statement of Net Assets and the Statement of Activities, are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
 - ♦ *Governmental funds statements* tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
 - ♦ *Fiduciary funds statements* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The Basic Financial Statements also include Notes to Basic Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data. Supplemental Information follows and includes combining and individual fund statements.

District-wide Statements

The district-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets, and how they have changed. Net assets - the difference between the District's assets and liabilities - is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, one should consider additional non-financial factors such as changes in the District's property tax-base and the condition of school buildings and other facilities.

GREENVILLE PUBLIC SCHOOLS
Management's Discussion and Analysis
June 30, 2006

In the district-wide financial statements, the District's activities are presented as follows:

- *Governmental activities:* The District's basic services are included here, such as regular and special education, instructional support, transportation, administration, community services, food service and athletics. State aid and property taxes finance most of these activities.

Condensed District-Wide Financial Information

The Statement of Net Assets provides financial information on the District as a whole.

	<u>2006</u>	<u>2005</u>
Assets		
Current assets	\$ 10,028,068	\$ 8,903,061
Net capital assets	<u>45,459,968</u>	<u>47,136,511</u>
Total Assets	<u>55,488,036</u>	<u>56,039,572</u>
Liabilities		
Current liabilities	9,453,744	9,792,242
Long-term liabilities	<u>45,353,881</u>	<u>46,409,053</u>
Total Liabilities	<u>54,807,625</u>	<u>56,201,295</u>
Net Assets		
Invested in capital assets, net of related debt	(1,213,069)	(1,478,911)
Restricted	285,723	183,619
Unrestricted	<u>1,607,757</u>	<u>1,133,569</u>
Total Net Assets	<u>\$ 680,411</u>	<u>\$ (161,723)</u>

The results of the fiscal year's operations for the District as a whole are presented in the Statement of Activities, which shows the change in total net assets for the year.

GREENVILLE PUBLIC SCHOOLS
Management's Discussion and Analysis
June 30, 2006

The Statement of Activities presents changes in net assets from operating results:

	2006	2005
Program Revenues		
Charges for services	\$ 916,111	\$ 850,929
Operating grants	2,741,317	3,793,993
General Revenues		
Property taxes	8,064,840	7,134,505
State school aid, unrestricted	22,534,805	20,567,198
Interest and investment earnings	177,524	87,970
Other	269,675	287,324
Total Revenues	34,704,272	32,721,919
Expenses		
Instruction	17,251,663	17,044,455
Supporting services	10,349,383	10,388,209
Community services	194,268	
Food service	979,631	901,992
Athletics	656,482	658,613
Interest on long-term debt	2,305,399	2,438,995
Depreciation – unallocated	2,125,312	2,018,076
Total Expenses	33,862,138	33,450,340
Increase (decrease) in net assets	842,134	(728,421)
Net Assets - Beginning of Year	(161,723)	566,698
Net Assets - End of Year	\$ 680,411	\$ (161,723)

Financial Analysis of the District as a Whole

The District's financial position is the product of many factors.

The District's total revenues increased \$1.98 million (6 percent) to \$34.7 million. Property taxes and unrestricted state aid accounted for most of the District's revenues, contributing about 88 percent of every dollar raised. Another 8 percent came from state and federal aid for specific programs and the remainder from fees charged for services, interest earnings, donations and miscellaneous sources.

The total cost of all programs and services increased 1.2 percent to \$33.86 million. The District's expenses are predominantly related to instructing, caring for (pupil services) and transporting students (59 percent). The District's administrative and business activities accounted for 8 percent of total costs. Operation and maintenance expenses accounted for 8 percent of the total costs.

Total revenues surpassed expenses, increasing net assets by \$842,134 over last year.

GREENVILLE PUBLIC SCHOOLS
Management's Discussion and Analysis
June 30, 2006

The District has been able to continue to balance the General Fund budget through a series of reductions and cost savings measures that include:

- Reductions in instructional staff.
- Reductions in support personnel in a variety of areas throughout the District.
- The current trend to reduce costs will continue. At the present time the District is actively pursuing a strategic plan that will guide the district for the next 5 years. The plan includes looking at revenue enhancement options as well as a facilities study.

Fund Financial Statements

The *fund financial statements* provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

The District utilizes two kinds of funds:

- *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information following the governmental funds' statements explain the relationship (or differences) between them.
- *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others, such as Student Activities Funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the District's Funds

The District uses funds to record and analyze financial information. Greenville Public School's funds are described as follows:

Major Funds

General Fund

The General Fund is the District's primary operating fund. The General Fund had total revenues of \$29,139,571, total other financing sources (loan proceeds and transfers in) of \$462,922, total expenditures of \$29,020,981, and total other financing uses of \$552,646. It ended the fiscal year with a fund balance of \$1,704,058, up from \$1,675,192 as of June 30, 2005.

GREENVILLE PUBLIC SCHOOLS
Management's Discussion and Analysis
June 30, 2006

Debt Service Fund

The Debt Service Fund had total revenues of \$4,258,646 and total expenditures of \$3,868,770. It ended the year with a fund balance of \$573,498, up from \$183,622 at June 30, 2005.

Building and Site Fund

The Building and Site Fund had bond proceeds of \$1,055,000 and interest earnings of \$5,142. Expenditures totaled \$25,757, leaving a fund balance of \$1,034,385 at June 30, 2006.

Nonmajor Funds

Special Revenue Funds

The District operates three Special Revenue Funds, for the food service, athletic and book store programs. Total revenues were \$1,226,368 and other financing sources (transfers in) were \$552,646. Total expenditures were \$1,656,543 and other financing uses were \$66,500. The ending fund balances were \$172,349, of which \$165,621 is attributable to the Food Service Fund.

Fiduciary Funds

The Student Activity Fund is operated as an Agency Fund of the District. The assets of this fund is being held for the benefit of the District's students. Balances on hand at June 30, 2006 totaled \$323,745.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget two times. These budget amendments fall into the following categories:

- Changes made in March to account for the final student enrollment that determines how much foundation grant state school aid will be received during the fiscal year.
- Changes made in March account for prior year state aid adjustments.
- Final changes made in June for increases in appropriations to prevent budget overruns and adjust for tax calculations
- Although the District's final budget for the General Fund anticipated expenditures would exceed revenues by \$59,006, the actual results for the year show a \$28,866 increase in fund balance.
- Actual revenues were \$100,489 higher than budgeted, due largely to State and interdistrict sources that were under estimated in the budget.
- Actual expenditures were \$93,047 above final budgeted amounts, due primarily to changes in salaries and health insurance.

GREENVILLE PUBLIC SCHOOLS
Management's Discussion and Analysis
June 30, 2006

Capital Asset and Debt Administration

Capital Assets

By the end of 2006, the District had invested \$70.29 million in a broad range of capital assets, including land and land improvements, school buildings, athletic facilities, computer equipment, school buses, and administrative offices. This amount represents an increase of \$382,000 from June 30, 2005, due mainly to computer and copier purchases. More detailed information about capital assets can be found in Note E in the Notes to Basic Financial Statements.

The net book value of District assets at June 30, 2006 are as follows:

Land	\$ 100,000
Land improvements	3,262,860
Buildings and additions	40,512,981
Furniture and equipment	697,735
Vehicles	<u>886,392</u>
Net Capital Assets	<u><u>\$ 45,459,968</u></u>

Long-Term Debt

At year end, the District had \$48 million in general obligation bonds and other long-term debt outstanding – a decrease of \$946,000 from last year.

- The District continued to pay down its debt, retiring \$1.93 million of outstanding bonds.

The District's other obligations include installment purchase agreements, capital leases and early retirement incentive . We present more detailed information about our long-term liabilities in Note H to the Notes to Basic Financial Statements.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of the following existing circumstances that could significantly affect its financial health in the future:

- The District effectively negotiated a one-year contract with our teacher (GEA) union and support employee (GESPA) union at the end of the 2006 fiscal year. During this contract we were able to increase salaries at very modest levels (average increase was 1.25%). We were also able to change health insurance plans which did reduce our overall health insurance costs. We hope to successfully negotiate salaries with our teachers and support groups for next year.
- The District has experienced large increases in health insurance premium costs over the past three years (in excess of 10% per year). These increases have amounted to increases in health insurance costs of over \$400,000 per year. The District must continue to work with all of our employee groups in an attempt to find viable solutions as related to health insurance. The District cannot continue to support the types of increases in health insurance premiums that have now occurred over the past several years.

GREENVILLE PUBLIC SCHOOLS
Management's Discussion and Analysis
June 30, 2006

- Another area of substantial concern is the retirement rate school districts must pay on employee salaries. Over the past several years schools have experienced substantial increases in this area. We must continue to work with our State Legislature to get some reform in the Michigan School Employee Retirement System.
- Enrollment continues increase in the District. Recently we have seen some modest increases on an annual basis. Much of the decline can be attributed to a decline in our fall migrant student population.
- The current state of the Michigan economy has created a financial hardship on most schools in the State. School districts will receive a modest increase in State aid during the 2006-07 school year of \$233 per student. However, over the past three years we have experienced no increases and for two of those years we experienced reductions from the State. Unless this trend quickly changes, our financial position will worsen, causing additional budget reductions, which will impact the programs and services we provide for our students.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Greenville Public Schools, 12420 Lincoln Lake Ave. NE., Greenville, Michigan 48838.

BASIC FINANCIAL STATEMENTS

GREENVILLE PUBLIC SCHOOLS
Statement of Net Assets
June 30, 2006

	Governmental Activities
Assets	
Current Assets	
Cash	\$ 366
Cash equivalents, deposits and investments (Note B)	5,352,089
Receivables:	
Taxes (Note C)	94,378
Accounts	54,320
Due from other governmental units (Note C)	4,503,678
Inventory (Note A)	9,427
Prepaid expenses	13,810
Total Current Assets	<u>10,028,068</u>
Noncurrent Assets	
Capital assets (Note E)	70,285,852
Less accumulated depreciation	<u>(24,825,884)</u>
Total Noncurrent Assets	<u>45,459,968</u>
Total Assets	<u>55,488,036</u>
Liabilities	
Current Liabilities	
Accounts payable	730,835
State aid anticipation loan payable (Note F)	3,800,000
Due to other governmental units	511,607
Accrued interest payable	453,319
Salaries payable	1,282,310
Deferred revenue	13,996
Current portion of long term obligations	2,661,677
Total Current Liabilities	<u>9,453,744</u>
Noncurrent Liabilities (Note A, H)	
General obligation bonds payable	37,370,000
Energy conservation improvement bonds payable	1,055,000
Durant nonplaintiff bonds payable	276,856
State school bond loan payable	8,023,523
Installment purchase agreements payable	835,675
Capital leases payable	118,504
Early retirement incentive/severance pay	336,000
Current portion of long term obligations	<u>(2,661,677)</u>
Total Noncurrent Liabilities	<u>45,353,881</u>
Total Liabilities	<u>54,807,625</u>
Net Assets	
Invested in capital assets, net of related debt	(1,213,069)
Restricted for:	
Debt service	285,723
Unrestricted	<u>1,607,757</u>
Total Net Assets	<u>\$ 680,411</u>

See accompanying notes to basic financial statements.

GREENVILLE PUBLIC SCHOOLS
Statement of Activities
For the year ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes In Net Assets
		Charges for Services	Operating Grants	
Governmental Activities				
Instruction	\$ 17,251,663	\$ 349,539	\$ 2,064,683	\$(14,837,441)
Supporting services	10,349,383	5,359	-	(10,344,024)
Community services	194,268	-	-	(194,268)
Food service	979,631	446,476	643,708	110,553
Athletics	656,482	114,737	-	(541,745)
Interest on long-term debt	2,305,399	-	32,926	(2,272,473)
Depreciation - unallocated	2,125,312	-	-	(2,125,312)
Total Governmental Activities	\$ 33,862,138	\$ 916,111	\$ 2,741,317	(30,204,710)
General Revenues				
Taxes:				
Property taxes, levied for general operations				3,858,824
Property taxes, levied for debt service				4,206,016
State school aid, unrestricted				22,534,805
Interest and investment earnings				177,524
Gain (loss) on sale of capital assets				(7,433)
Other				277,108
Total General Revenues				31,046,844
Change in Net Assets				842,134
Net Assets - Beginning of Year, as restated (Note M)				(161,723)
Net Assets - End of Year				\$ 680,411

See accompanying notes to basic financial statements.

GREENVILLE PUBLIC SCHOOLS
Balance Sheet
Governmental Funds
June 30, 2006

	<u>General</u>	<u>Debt Service</u>	<u>Building and Site</u>
Assets			
Cash	\$ 100	\$ -	\$ -
Cash equivalents, deposits and investments (Note B)	3,512,217	622,805	1,034,385
Receivables:			
Taxes (Note C)	67,350	27,028	-
Accounts	53,404	-	-
Due from other funds (Note D)	-	-	-
Due from other governmental units (Note C)	4,483,039	11,421	-
Inventory (Note A)	-	-	-
Prepaid expenditures	13,810	-	-
Total Assets	<u><u>\$ 8,129,920</u></u>	<u><u>\$ 661,254</u></u>	<u><u>\$ 1,034,385</u></u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 702,939	\$ 4,306	\$ -
State aid anticipation loan payable (Note F)	3,800,000	-	-
Due to other funds (Note D)	10,946	-	-
Due to other governmental units	453,724	56,422	-
Accrued interest payable	110,652	-	-
Salaries payable	1,276,216	-	-
Deferred revenue	71,385	27,028	-
Total Liabilities	<u><u>6,425,862</u></u>	<u><u>87,756</u></u>	<u><u>-</u></u>
Fund Balances			
Reserved for:			
Debt service	-	573,498	-
Capital outlay	-	-	1,034,385
Unreserved:			
Designated	222,367		
Undesignated, reported in:			
General fund	1,481,691	-	-
Special revenue funds	-	-	-
Total Fund Balances	<u><u>1,704,058</u></u>	<u><u>573,498</u></u>	<u><u>1,034,385</u></u>
Total Liabilities and Fund Balances	<u><u>\$ 8,129,920</u></u>	<u><u>\$ 661,254</u></u>	<u><u>\$ 1,034,385</u></u>

See accompanying notes to basic financial statements.

<u>Nonmajor</u>	<u>Total</u>
\$ 266	\$ 366
182,682	5,352,089
-	94,378
916	54,320
10,946	10,946
9,218	4,503,678
9,427	9,427
-	13,810
<u>\$ 213,455</u>	<u>\$ 10,039,014</u>

\$ 23,590	\$ 730,835
-	3,800,000
-	10,946
1,461	511,607
-	110,652
6,094	1,282,310
9,961	108,374
<u>41,106</u>	<u>6,554,724</u>

-	573,498
-	1,034,385
	222,367
-	1,481,691
172,349	172,349
<u>172,349</u>	<u>3,484,290</u>
<u>\$ 213,455</u>	<u>\$ 10,039,014</u>

GREENVILLE PUBLIC SCHOOLS
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2006

Total governmental fund balances			\$ 3,484,290
Amounts reported for governmental activities in the Statement of Net Assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$70,285,852 and accumulated depreciation is \$24,825,884.			
			45,459,968
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:			
General obligation bonds	\$(37,370,000)		
Energy conservation improvement bonds	(1,055,000)		
Durant nonplaintiff bonds	(276,856)		
State school bond loan	(8,023,523)		
Installment purchase agreements	(835,675)		
Capital leases	(118,504)		
Early retirement incentive	(336,000)		
			(48,015,558)
Accrued interest is not included as a liability in governmental funds.			(342,667)
Deferred revenue recognized as revenue in the full accrual statements:			
Property taxes			94,378
			<u>94,378</u>
Total net assets - governmental activities			<u><u>\$ 680,411</u></u>

See accompanying notes to basic financial statements.

GREENVILLE PUBLIC SCHOOLS
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2006

	General	Debt Service	Building and Site
Revenues			
Local sources	\$ 4,540,083	\$ 4,225,720	\$ 5,142
State sources	23,270,225	32,926	-
Federal sources	814,257	-	-
Interdistrict sources	515,006	-	-
Total Revenues	<u>29,139,571</u>	<u>4,258,646</u>	<u>5,142</u>
Expenditures			
Current:			
Instruction	17,248,977	-	-
Supporting services	10,791,828	-	-
Community services	194,268	-	-
Food service	-	-	-
Athletics	-	-	-
Book store	-	-	-
Capital outlay	-	-	25,757
Debt service:			
Principal repayment	482,621	1,927,695	-
Interest and fiscal charges	-	1,941,075	-
Interdistrict	303,287	-	-
Total Expenditures	<u>29,020,981</u>	<u>3,868,770</u>	<u>25,757</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>118,590</u>	<u>389,876</u>	<u>(20,615)</u>
Other Financing Sources (Uses)			
Bonds issued	-	-	1,055,000
Loan proceeds	396,422	-	-
Transfers in	66,500	-	-
Transfers out	(552,646)	-	-
Total Other Financing Sources (Uses)	<u>(89,724)</u>	<u>-</u>	<u>1,055,000</u>
Net Change in Fund Balances	28,866	389,876	1,034,385
Fund Balances, Beginning of Year	<u>1,675,192</u>	<u>183,622</u>	<u>-</u>
Fund Balances, End of Year	<u><u>\$ 1,704,058</u></u>	<u><u>\$ 573,498</u></u>	<u><u>\$ 1,034,385</u></u>

See accompanying notes to basic financial statements.

<u>Nonmajor</u>	<u>Total</u>
\$ 582,660	\$ 9,353,605
42,638	23,345,789
601,070	1,415,327
-	515,006
<u>1,226,368</u>	<u>34,629,727</u>
-	17,248,977
-	10,791,828
-	194,268
979,631	979,631
656,482	656,482
20,430	20,430
-	25,757
-	2,410,316
-	1,941,075
-	303,287
<u>1,656,543</u>	<u>34,572,051</u>
<u>(430,175)</u>	<u>57,676</u>
-	1,055,000
-	396,422
552,646	619,146
(66,500)	(619,146)
<u>486,146</u>	<u>1,451,422</u>
55,971	1,509,098
<u>116,378</u>	<u>1,975,192</u>
<u>\$ 172,349</u>	<u>\$ 3,484,290</u>

GREENVILLE PUBLIC SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the year ended June 30, 2006

Net change in fund balances - total governmental funds \$1,509,098

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is capitalized and the cost is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period:

	Capital outlays	\$ 468,202	
	Depreciation expense	<u>(2,125,312)</u>	(1,657,110)

On the Statement of Activities proceeds from the sale of capital assets are replaced by the gain (loss) on the transaction.	(19,433)
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As some delinquent personal property taxes will not be collected for several years after the District's fiscal year ends, they are not considered "available" revenues in the governmental funds, and are instead counted as deferred tax revenues. They are, however, recorded as revenues in the Statement of Activities.	94,378
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Proceeds from the sale of bonds or loans are an other financing source in the governmental funds, but increase long-term liabilities in the Statement of Net Assets.	(1,766,118)
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Repayment of principal on long-term debt is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities:	
Repayment of general obligation bonds	1,905,000
Repayment of Durant nonplaintiff bonds	22,695
Repayment of installment purchase agreements	228,987
Repayment of capital leases	<u>233,508</u>
	2,390,190

Interest on long-term liabilities in the Statement of Activities differs from the amount reported on the governmental funds because interest is recorded as an expenditure in the funds when it is due and paid, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues regardless of when it is paid.	(30,871)
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In the Statement of Net Assets, early retirement incentive is measured by the amount earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year the amount of these benefits paid/used (\$322,000) exceeded the amounts earned (\$-).	<u>322,000</u>
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Total changes in net assets - governmental activities	<u><u>\$842,134</u></u>
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See accompanying notes to basic financial statements.

GREENVILLE PUBLIC SCHOOLS
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2006

	Budgeted Amounts		Actual	Variance With Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Local sources	\$ 3,456,500	\$ 4,564,326	\$ 4,540,083	\$ (24,243)
State sources	23,448,475	23,192,059	23,270,225	78,166
Federal sources	904,400	807,336	814,257	6,921
Interdistrict sources	375,000	475,361	515,006	39,645
Total Revenues	28,184,375	29,039,082	29,139,571	100,489
Expenditures				
Current:				
Instruction:				
Basic programs	13,737,206	13,553,133	13,573,502	(20,369)
Added needs	3,296,969	3,684,345	3,675,475	8,870
Supporting services:				
Pupil services	1,622,337	1,676,170	1,686,673	(10,503)
Instructional staff services	1,301,375	1,256,588	1,225,391	31,197
General administrative services	440,533	459,264	532,994	(73,730)
School administrative services	1,673,092	1,672,732	1,644,640	28,092
Business services	457,610	626,874	669,821	(42,947)
Operation and maintenance services	2,468,232	2,660,668	2,725,448	(64,780)
Pupil transportation services	1,057,076	1,096,369	1,168,675	(72,306)
Central services	830,674	1,157,834	1,074,450	83,384
Other supporting services	71,547	72,233	63,737	8,496
Community services	138,721	213,372	194,268	19,104
Debt service:				
Principal repayment	-	482,668	482,621	47
Interdistrict	682,105	315,684	303,286	12,398
Total Expenditures	27,777,477	28,927,934	29,020,981	(93,047)
Excess Of Revenues Over Expenditures	406,898	111,148	118,590	7,442
Other Financing Sources (Uses)				
Loan proceeds	-	330,244	396,422	66,178
Transfers in	160,000	66,500	66,500	-
Transfers out	(566,898)	(566,898)	(552,646)	14,252
Total Other Financing Sources (Uses)	(406,898)	(170,154)	(89,724)	80,430
Net Change in Fund Balances	-	(59,006)	28,866	87,872
Fund Balances, July 1	1,675,192	1,675,192	1,675,192	-
Fund Balances, June 30	\$ 1,675,192	\$ 1,616,186	\$ 1,704,058	\$ 87,872

See accompanying notes to basic financial statements.

GREENVILLE PUBLIC SCHOOLS
Fiduciary Fund
Statement of Fiduciary Assets and Liabilities
June 30, 2006

	<u>Agency Fund</u>
Assets	
Cash equivalents, deposits and investments (Note B)	<u>\$ 323,745</u>
Liabilities	
Accounts payable	\$ 94
Due to student groups	<u>323,651</u>
Total Liabilities	<u>\$ 323,745</u>

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

GREENVILLE PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

Note A – Summary of Significant Accounting Policies

Greenville Public Schools was organized under the School Code of the State of Michigan and services a population of approximately 3,833 students. The District is governed by an elected Board of Education consisting of seven members and administered by a Superintendent who is appointed by the aforementioned Board. The District provides a comprehensive range of educational services as specified by state statute and Board of Education policy. These services include elementary education, secondary education, pre-school programs, athletic activities, special education, community services and general administrative services. The Board of Education also has broad financial responsibilities, including the approval of the annual budget and the establishment of a system of accounting and budgetary controls.

The financial statements of Greenville Public Schools (the “District”) have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the District’s accounting policies are described below.

1. Reporting Entity

The financial reporting entity consists of a primary government and its component units. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the District for financial statement presentation purposes, and the District is not included in any other governmental reporting entity. Consequently, the District’s financial statements include the funds of those organizational entities for which its elected governing board is financially accountable.

2. District-Wide and Fund Financial Statements

District-Wide Financial Statements - The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) present financial information about the District as a whole. The reported information includes all of the nonfiduciary activities of the District. The District does not allocate indirect costs and, for the most part, the effect of interfund activity has been removed. These statements are to distinguish between the *governmental* and *business-type activities* of the District. *Governmental activities* normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type* activities, which rely to a significant extent on fees and charges for support. The District does not have any business-type activities.

The Statement of Net Assets is presented on the classified basis and is reported on the full accrual, economic resource basis, which recognizes all long-term assets as well as all long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets, and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, unrestricted state aid, interest earnings and other items not included among program revenues are reported instead as *general revenues*.

GREENVILLE PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the government wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The General Fund, Debt Service Fund and the Building and Site Fund are the District's major funds. Non-major funds are aggregated and presented in a single column.

Fund Financial Statements – Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Fund level statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. The Balance Sheet reports current assets, current liabilities and fund balances. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources and uses of current financial resources. This differs from the economic resources measurement focus used to report at the district-wide level. Reconciliations between the two sets of statements are provided in separate statements.

Revenues are recognized when susceptible to accrual; i.e., both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Expenditures are generally recorded when the liability is incurred, if they are paid within 60 days after the end of the current fiscal period. The exception to this general rule is that principal and interest on long-term debt is recognized when due.

Revenues susceptible to accrual are property taxes, state aid, federal and interdistrict revenues and investment income. Other revenues are recognized when received. Deferred revenue arises when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenue also arises when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of the qualifying expenditures.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the fiduciary fund financial statement. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenues in accordance with state law and accounting principles generally accepted in the United States of America.

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of a school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

GREENVILLE PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

General Fund—The General Fund is the general operating fund of a school district. It is used to account for all financial resources, except those required to be accounted for in another fund. Included are all transactions related to the current operating budget.

Special Revenue Funds—Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

School Service Funds—School Service Funds are used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. A school district maintains full control of these funds. The School Service Funds maintained by the District are the Food Service, Athletics, and Book Store Funds.

Debt Service Funds—Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt (bonds, notes, loans, leases and school bond loan) principal, interest, and related costs.

Capital Projects Funds—Capital Projects Funds are used to record bond proceeds, property tax revenues or other revenues and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment and for major remodeling and repairs. The funds are retained until the purpose for which the funds were created has been accomplished.

The Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the District has complied with the applicable provisions of Section 1351a of the State of Michigan's School Code.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by a school district in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. Fiduciary Fund net assets and results of operations are not included in the district-wide financial statements. Fiduciary funds are reported using the economic resources measurement focus. The District presently maintains a scholarship fund for the benefit of students.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District presently maintains a Student Activities Fund to record the transactions of student groups for school and school related purposes. The funds are segregated and held in trust for the students.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the district-wide and fiduciary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted as they are needed.

GREENVILLE PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

4. Budgets and Budgetary Accounting

State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act) requires that the General Fund of a school district be under budgetary control and that both budgeted and actual financial results do not incur a deficit. Greenville Public Schools has also adopted budgets for its Special Revenue Funds. A school district's General Appropriations Resolution (the "budget") must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from a district's budget may occur without a corresponding amendment to the budget. A school district has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year-end. A school district may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Education. Expenditures may not legally exceed budgeted appropriations at the fund level. All appropriations lapse at the end of the fiscal year.

Greenville Public Schools utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- Starting in the spring, District administrative personnel and department heads work with the Superintendent and Assistant Superintendent for Business to establish proposed operating budgets for the fiscal year commencing the following July 1.
- In June, preliminary operating budgets are submitted to the Board of Education. These budgets include proposed expenditures and the means of financing them.
- Prior to June 30, a public hearing is held to obtain taxpayer comments on the proposed budgets.
- After the budgets are finalized, the Board of Education adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.
- The original General and Special Revenue Funds budgets were amended during the year in compliance with State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act).
- Budgets for the General and Special Revenue Funds were adopted on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.
- The District did not adopt a budget for the Bookstore Special Revenue Fund.

5. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the governmental funds. There were no substantial encumbrances outstanding at year end.

6. Investments

Investments are recorded at fair value, based on quoted market prices, or estimated fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

GREENVILLE PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

7. Inventory

Inventories are valued at cost (first-in, first-out). Inventories of the General Fund consist of custodial and maintenance supplies. Inventories of the Food Service Fund consist of food, unused commodities and other nonperishable supplies. Disbursements for inventory-type items are recorded as expenditures at the time of use for each fund.

8. Capital Assets

Capital assets, which include land, land improvements, buildings, vehicles and furniture and equipment, are reported in the district-wide financial statements. Assets having a useful life in excess of one year are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life are not capitalized. Improvements are capitalized and depreciated over the remaining useful life of the related assets.

Land improvements, buildings and additions, vehicles and furniture and equipment are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	10-20 years
Buildings and additions	40-50 years
Vehicles	5-10 years
Furniture and equipment	3-10 years

9. Long-Term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

10. Early Retirement Incentive

Early retirement incentive has been computed and recorded in the basic financial statements of the District. Eligible District employees who select early retirement are entitled to a termination leave payment based on their age and years of service. At June 30, 2006, the accumulated liabilities, including salary related payments, (expected to be financed by General Fund revenues) for early retirement incentive amounted to \$336,000.

GREENVILLE PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

11. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for expenditures or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

12. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses.

13. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note B – Cash and Investments

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- Bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this state under the laws of this state or the United States.
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of the purchase.
- United States or federal obligation repurchase agreements.
- Banker's acceptances of United States Banks.
- Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.
- Surplus funds investment pools.

GREENVILLE PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

Balances at June 30, 2006 related to cash equivalents, deposits and investments are detailed in the Basic Financial Statements as follows:

Statement of Net Assets:	
Governmental activities	\$ 5,352,089
Fiduciary Funds:	
Agency Fund	<u>323,745</u>
	<u>\$ 5,675,834</u>

Cash Equivalents and Deposits

Depositories actively used by the District during the year are detailed as follows:

1. Fifth Third Bank
2. Huntington National Bank
3. Chase J.P. Morgan Bank, N.A.

Cash equivalents consist of bank public funds checking and savings accounts. Deposits consist of certificates of deposit.

June 30, 2006 balances are detailed as follows:

Cash equivalents	\$ 1,385,510
Deposits	<u>43,800</u>
	<u>\$ 1,429,310</u>

Custodial credit risk

Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to the District. Protection of District cash equivalents and deposits is provided by the Federal Deposit Insurance Corporation. At year end, the carrying amount of the District's cash equivalents and deposits was \$1,429,310 and the bank balance was \$2,305,699. Of the bank balance, \$200,253 was covered by federal depository insurance and \$2,105,446 was uninsured.

Investments

As of June 30, 2006 the District had the following investments:

	<u>Fair Value</u>
Investment Pool Accounts:	
MBIA Public Funds Accounts	<u><u>\$ 4,246,524</u></u>

Custodial Credit Risk

The District minimizes custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities allowed by State statute, and pre-qualifying the financial institution, broker/dealers, intermediaries and advisors with which the District will do business.

Credit Risk

The District's investments in the MBIA Public Funds Accounts investment pool were unrated.

GREENVILLE PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

Interest Rate Risk

The District minimizes interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market, and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Concentration of Credit Risk

The District minimizes concentration of credit risk which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Foreign Currency Risk

The District is not authorized to invest in investments which have this type of risk.

Note C – State School Aid/Property Taxes

On March 15, 1994, the voters of the State of Michigan approved Proposal A, which increased the State Sales and Use Tax rates from 4% to 6% and established a State Education Tax at a rate of 6 mills on all property, except that which is exempt by law from ad valorem property taxes, and dedicated the additional revenues generated to Michigan school districts. The amount of 2005 ad valorem State Education Taxes generated within the Greenville Public School District, and paid to the State of Michigan, totaled \$1,305,054.

These additional State revenues pass through to Michigan school districts in the form of a per pupil "Foundation Allowance" paid on a "blended count" of District pupil membership in February, 2005 and September, 2005. The 2005-06 "Foundation Allowance" for Greenville Public Schools was \$6,875 for 3,821 "Full Time Equivalent" students, generating \$23,345,789 in state aid payments to the District of which \$4,316,684 was paid to the District in July and August, 2006 and is included in "Due From Other Governmental Units" of the General Fund and Food Service Special Revenue Fund at June 30, 2006.

Property taxes for the District are levied July 1 and December 1 under a split-levy system by the City of Greenville, and December 1 by the Townships of Otisco, Oakfield, Spencer, Eureka, Fairplains, Montcalm and Sidney. The taxes are then collected by each governmental unit and remitted to the District. The Counties of Ionia, Kent and Montcalm, through their Delinquent Tax Revolving Funds, advances all delinquent real property taxes at March 1 to the District each year prior to June 30. Delinquent personal property taxes receivable are detailed as follows:

Year	General	Debt Service	Total
2005	\$ 67,350	\$ 27,028	\$ 94,378

Taxes uncollected after three years from the date of levy, unless material in amount, are written off the books of the District.

Section 1211(1) of 1993 PA 32 states that beginning in 1994, the board of a school district shall levy not more than 18 mills, if approved by voters, for school operating purposes, or the number of mills levied in 1993, which ever is less, on non-homestead property only, in order to be eligible to receive funds under the State School Aid

GREENVILLE PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

Act of 1979. After 1996, electors may approve a 3 mill "Local Enhancement Millage" which must be shared between all local districts in each respective county intermediate district.

District electors previously (June, 1995) approved a ten year operating millage extension for the 18 mill non-homestead property tax. Only 17.5214 mills were levied in 2005 due to reductions caused by the Headlee Amendment.

The District levied 7.0 mills for debt service purposes in 2005, applied on all taxable property in the District.

Taxable property in the District is assessed initially at 50% of true cash value by the assessing officials of the various units of government that comprise the District. These valuations are then equalized by the county and finally by the State of Michigan, generating the State Equalized Valuation. Taxable valuation increases will be limited, or capped (known as capped valuation), at 5% or the rate of inflation, whichever is less. With the implementation of Proposal A, taxable property is now divided into two categories: homestead and non-homestead.

Homestead property is exempt from the 18 mill "School Operating" tax. It is not exempt from the 6 mill "State Education" tax, any voted "Local Enhancement Millage", nor any additional voted millage for the retirement of debt.

Non-homestead property is considered to be all property not qualifying for a homestead exemption, which includes all commercial and industrial property. Non-homestead property is subject to all District levies.

Note D – Interfund Receivables/Payables and Transfers

Amounts due from (to) other funds representing interfund receivables and payables at June 30, 2006 are detailed as follows:

	<u>Due From</u>	<u>Due To</u>
General Fund		
Athletics Fund	\$ —	\$ 10,946
Special Revenue Funds		
Athletics Fund:		
General Fund	10,946	—
Total All Funds	<u>\$ 10,946</u>	<u>\$ 10,946</u>

The balances represent reimbursements for expenditures incurred in 2005-06 and not paid until subsequent to the end of the fiscal year.

GREENVILLE PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

Transfers between funds during the year ended June 30, 2006 were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund:		
Special Revenue Fund:		
Food Service Fund	\$ 66,500	\$ —
Athletics Fund	—	552,646
Special Revenue Fund:		
Food Service:		
General Fund	—	66,500
Athletics Fund:		
General Fund	552,646	—
Total All Funds	<u><u>\$ 619,146</u></u>	<u><u>\$ 619,146</u></u>

The General Fund transfer to the Athletics Fund was made to pay the General Fund's share of support for the athletic program for the fiscal year, and the Food Service Fund transfer was made to pay indirect costs.

Note E – Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Balances July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances June 30, 2006</u>
Capital assets not depreciated:				
Land	\$ 100,000	\$ —	\$ —	\$ 100,000
Capital assets being depreciated:				
Land improvements	4,357,146	—	—	4,357,146
Buildings and additions	59,988,412	—	—	59,988,412
Furniture and equipment	3,714,737	468,202	85,991	4,096,948
Vehicles	1,743,346	—	—	1,743,346
Totals at historical cost	<u>69,903,641</u>	<u>\$ 468,202</u>	<u>\$ 85,991</u>	<u>70,285,852</u>
Less accumulated depreciation for:				
Land improvements	\$ 875,429	\$ 218,857	\$ —	\$ 1,094,286
Buildings and additions	18,388,445	1,086,986	—	19,475,431
Furniture and equipment	2,810,746	655,025	66,558	3,399,213
Vehicles	692,510	164,444	—	856,954
Total accumulated depreciation	<u>22,767,130</u>	<u>\$2,125,312</u>	<u>\$ 66,558</u>	<u>24,825,884</u>
Net Capital Assets	<u><u>\$ 47,136,511</u></u>			<u><u>\$ 45,459,968</u></u>

The District considers all capital assets to be multi-use and, as such, does not allocate depreciation expense to the various expense functions.

GREENVILLE PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

Note F – Short-term Debt

The \$3,550,000 August 18, 2004 state aid anticipation loan was repaid on August 18, 2005. On August 19, 2005, the District borrowed \$3,800,000 in anticipation of state aid (interest at 2.92%), due in full on August 18, 2006. Total interest expense on the loans was \$126,872 for the fiscal year.

Note H – Long-term Debt

Amounts available and to be provided for outstanding long-term debt at June 30, 2006 are summarized as follows:

	Bond Issues	State School Bond Loan	Installment Purchase Agreements/ Capital Leases	Early Retirement Incentive	Total
Amounts Available For Retirement Of Long-Term Debt					
Debt Service Funds	\$ 573,498	\$ —	\$ —	\$ —	\$ 573,498
Amounts To Be Provided For Retirement Of Long-Term Debt					
State of Michigan	276,856	—	—	—	276,856
General Fund	1,055,000	—	954,179	336,000	2,345,179
Debt Service Funds	36,796,502	8,023,523	—	—	44,820,025
Total Amounts Available And To Be Provided	\$ 38,701,856	\$ 8,023,523	\$ 954,179	\$ 336,000	\$48,015,558

Changes in long-term debt for the year ended June 30, 2006 are summarized as follows:

	Debt Outstanding July 1, 2005	Debt Added	Debt Retired	Debt Outstanding June 30, 2006
General obligation bonds:				
June 15, 1998	\$ 27,995,000	\$ —	\$ 1,550,000	\$ 26,445,000
October 26, 1999	1,680,000	—	310,000	1,370,000
March 1, 2001	9,600,000	—	45,000	9,555,000
Energy conservation improvement bonds:				
May 8, 2006	—	1,055,000	—	1,055,000
Durant nonplaintiff bonds:				
November 13, 1998	299,551	—	22,695	276,856
State school bond loan	7,708,827	314,696	—	8,023,523
Installment purchase agreements	668,240	396,422	228,987	835,675
Capital leases	352,012	—	233,508	118,504
Early retirement incentive	658,000	—	322,000	336,000
	\$ 48,961,630	\$1,766,118	\$ 2,712,190	\$ 48,015,558

GREENVILLE PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

Long-term bonds, notes and capital leases outstanding at June 30, 2006 are comprised of the following:

	Final Maturity Dates	Interest Rates	Outstanding Balance	Amount Due Within One Year
General Obligation Bonds				
\$30,150,000 1998 Refunding:				
Annual maturities of \$1,385M to \$1,525M	May 1, 2024	4.40 - 5.00	\$26,445,000	\$ 1,535,000
\$4,435,000 1999 Building and Site:				
Annual maturities of \$410M to \$500M	May 1, 2009	5.00 - 6.375	1,370,000	410,000
\$9,955,000 2001 Refunding:				
Annual maturities of \$45M to \$600M	May 1, 2025	3.90 - 5.25	9,555,000	45,000
Energy Conservation Improvement Bonds				
\$1,055,000 2006 Improvement:				
Annual maturities of \$50M to \$95M	May 1, 2018	4.0 - 4.375	1,055,000	50,000
Durant Non-plaintiff Bonds				
\$468,878 1998 School Improvement:				
Annual maturities of \$23,771 to \$113,318	May 15, 2013	4.761353	276,856	23,771
Installment Purchase Agreements				
\$668,240 2005 School Buses:				
Annual maturities of \$133,000	July 15, 2009	3.11	532,000	133,000
\$330,244 2005 Computers:				
Annual maturities of \$82,500	July 15, 2008	3.36	247,500	82,500
\$66,178 2005 Risograph:				
Annual maturities of \$1,366 to \$15,615	Aug. 21, 2010	7.75	56,175	11,902
Capital Leases				
\$303,087 2004 Computers:				
Annual maturity of \$101,029	July 1, 2006	N/A	101,029	101,029
\$154,123 2004 Copiers:				
Annual maturity of \$17,475	Sep. 1, 2006	N/A	17,475	17,475
			\$39,656,035	\$ 2,409,677

The District is required to obtain loans from the Michigan School Bond Loan Fund (the "Fund") for the payment of the annual maturities of its general obligation bonds. There is no fixed maturity schedule for the repayment of these loans. Instead, the principal and interest are payable when taxes levied for debt service are no longer needed to retire bonded debt. During the year, \$314,696 of accrued interest was added to the District's liability to the Fund. At June 30, 2006, the District owed the Fund a total of \$8,023,523.

GREENVILLE PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

The annual requirements to pay principal and interest on long-term bonds, notes and capital leases outstanding are as follows:

Year Ended June 30	Principal	Interest	Total
2007	\$ 2,409,677	\$ 1,920,692	\$ 4,330,369
2008	2,338,437	1,822,534	4,160,971
2009	2,395,857	1,712,592	4,108,449
2010	2,315,951	1,597,126	3,913,077
2011	2,239,685	1,527,501	3,767,186
2012	2,165,000	1,390,366	3,555,366
2013	2,156,428	1,288,222	3,444,650
2014	2,150,000	1,181,191	3,331,191
2015	2,140,000	1,072,868	3,212,868
2016	2,140,000	965,046	3,105,046
2017	2,135,000	857,271	2,992,271
2018	2,130,000	751,281	2,881,281
2019	2,120,000	645,312	2,765,312
2020	2,115,000	539,843	2,654,843
2021	2,110,000	434,656	2,544,656
2022	2,010,000	329,750	2,339,750
2023	2,000,000	229,250	2,229,250
2024	1,985,000	129,250	2,114,250
2025	600,000	30,000	630,000
	<u>\$39,656,035</u>	<u>\$18,424,751</u>	<u>\$58,080,786</u>

On March 1, 2001, the District issued \$9,955,000 in general obligation bonds to advance refund outstanding 1995 general obligation bonds. The net proceeds were deposited with an escrow agent and used to purchase United States government securities. Under the terms of the agreement these securities, together with the interest earned to maturity, will be sufficient to pay principal and interest as it becomes due. This procedure relieves the District from being primarily liable for the debt and the District is virtually assured of not being required to make further payments with respect to the debt. These funds are not commingled with other funds and cannot be redeemed prior to maturity. Any excess funds will be returned to the District upon final payment of principal and interest (Scheduled to be May 1, 2009). This defeasance procedure allows the District to remove the related assets and liabilities from its financial statements, which it has done. The assets, now held by the escrow agent to be used for the remaining principal and interest due of \$10,728,500 on the defeased debt at June 30, 2006 are detailed in the following schedule:

	<u>Cost</u>	<u>Market Value</u>	<u>Par Value</u>
U.S. Government Securities	<u>\$ 9,405,347</u>	<u>\$ 9,405,347</u>	<u>\$ 9,405,347</u>

GREENVILLE PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

Note I – Retirement Plan

Substantially all District employees participate in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost sharing, multiple employer defined benefit public employee retirement system governed by the State of Michigan. The District's payroll for employees covered by MPERS for the year ended June 30, 2006 was \$17,479,720. A Basic Plan member may retire at age 55 with 30 or more years of credited service or at age 60 with 10 or more years of credited service. The annual retirement benefit, payable monthly for life, is equal to 1½ percent of a member's final average compensation multiplied by his/her number of years of credited service. Final average compensation is the employee's average salary over the last 5 years of credited service. Vested employees may retire at or after age 55 with 15 years of service and receive reduced retirement benefits.

School districts in the State of Michigan are required to contribute at a rate, annually determined by the State of Michigan, of covered employees' compensation to the MPERS plan. The contribution rate was 14.87% for the fiscal year ending September 30, 2005 and 16.34% for the fiscal year beginning October 1, 2005. The District's contributions to the plan for the fiscal years ended June 30, 2006, 2005 and 2004 were \$2,720,110, \$2,391,235 and \$2,277,581, respectively.

The "actuarial accrued liability" is a standardized disclosure method of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPERS' funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among public employee retirement systems and employers.

The MPERS does not make separate measurements of assets and actuarial accrued liability for individual schools. The actuarial accrued liability at September 30, 2004 (the latest reporting date available expressed as \$ in millions) for the MPERS as a whole, determined through an actuarial valuation performed as of that date, was \$46,317. The MPERS' net assets available for benefits on that date were \$38,784 leaving an unfunded pension benefit obligation of \$7,533. Ten year historical trend information showing the MPERS' progress in accumulating sufficient assets to pay benefits when due is presented in the September 30, 2005 Annual Report of the MPERS, which may be obtained by contacting the System at P.O. Box 30171, Lansing, Michigan 48909-7671.

The total actuarial accrued liability (expressed as \$ in millions) increased by \$1,548 from September 30, 2003 to September 30, 2004. Not included in the pension benefit obligation above is any future obligation attributable to health, dental and vision insurance benefits which are funded on a cash disbursement basis. With the passage of Act 279 of 1996, making permanent the cash basis financing of health, dental and vision benefits, actuarially calculated liabilities for these benefits are no longer disclosed on the balance sheets.

Prior to January 1, 1990, participating employees could elect coverage under either the noncontributory Basic Plan or the contributory Member Investment Plan (MIP). Effective January 1, 1990, all new employees are automatically enrolled in MIP. Participants in MIP, who receive benefits in addition to those available under the Basic Plan, contribute a percentage of salary. The graduated contribution rate is based on total wages and is calculated at 3% of the first \$5,000; 3.6% of the next \$10,000; and 4.3% of all wages over \$15,000. MIP members may retire at any age with 30 years of service, or at age 60 with 5 years of service, with benefits based on a final average compensation period of 5 years for members of the Basic Retirement Plan and 3 years for members of the MIP Retirement Plan.

GREENVILLE PUBLIC SCHOOLS
Notes to Basic Financial Statements
June 30, 2006

Post-employment benefits for health, dental and vision insurance are available at retirement through the MPSERS. Retirees contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverage. Required contributions for post-employment health care benefits are included as part of the District's total contribution to the MPSERS as discussed above.

Note I – Risk Management and Benefits

The District is a member of the SET-SEG Incorporated Insurance Pooled Fund (the Fund). Premiums from participants in the Fund provide coverage to pay claims, administrative expenses and to purchase reinsurance to protect the Fund and members against large losses. As of June 30, 2006, there were no material pending claims against the District. The District paid \$139,866 in premiums to the Fund for the year ended June 30, 2006.

The District is also a member of the SET-SEG Incorporated Workers' Compensation Pooled Fund (the Fund). Premiums from participants in the Fund provide coverage to pay claims, administrative expenses and to purchase reinsurance to protect the Fund and members against large losses. As of June 30, 2006, there were no material pending claims against the District. The District paid \$29,788 in premiums to the Fund for the year ended June 30, 2006.

Health, life and other employee insurance is provided by private insurance carriers. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note K – Stewardship, Compliance and Accountability

The following District funds had actual expenditures and transfers out exceed final budgeted amounts for the year ended June 30, 2006, as follows:

	Budget	Actual	Unfavorable Variance
General Fund	\$29,494,832	\$29,573,627	\$78,795
Food Service Special Revenue Fund	964,423	979,631	15,208

Note L – Commitments

On May 8, 2006, the District issued \$1,055,000 of energy conservation improvement bonds whose proceeds are being used for building renovations and improvements. At June 30, 2006, unspent balances committed to this construction project totaled approximately \$1,034,000, which are expected to be fully expended by the year ended June 30, 2007.

Note M – Prior Period Adjustments

July 1, 2005 debt outstanding for capital leases was increased by \$84,340 to reflect an unrecorded liability at June 30, 2005.

SUPPLEMENTAL INFORMATION

NONMAJOR FUNDS

GREENVILLE PUBLIC SCHOOLS
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2006

	Special Revenue			Total
	Food Service	Athletics	Book Store	
Assets				
Cash	\$ 44	\$ 222	\$ -	\$ 266
Cash equivalents, deposits and investments	172,777	3,080	6,825	182,682
Accounts receivable	822	94	-	916
Due from other funds	-	10,946	-	10,946
Due from other governmental units	9,218	-	-	9,218
Inventory	9,427	-	-	9,427
Total Assets	\$ 192,288	\$ 14,342	\$ 6,825	\$ 213,455
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 11,892	\$ 11,698	\$ -	\$ 23,590
Due to other governmental units	931	530	-	1,461
Salaries payable	3,883	2,211	-	6,094
Deferred revenue	9,961	-	-	9,961
Total Liabilities	26,667	14,439	-	41,106
Fund Balances				
Unreserved:				
Undesignated	165,621	(97)	6,825	172,349
Total Liabilities and Fund Balances	\$ 192,288	\$ 14,342	\$ 6,825	\$ 213,455

GREENVILLE PUBLIC SCHOOLS
Combining Schedule of Revenues, Expenditures and Changes in
Fund Balances - Nonmajor Governmental Funds
For the year ended June 30, 2006

	Special Revenue			
	Food Service	Athletics	Book Store	Total
Revenues				
Local sources:				
Interest earnings	\$ 3,270	\$ -	\$ -	\$ 3,270
Sales and admissions	446,476	114,737	18,177	579,390
Total local sources	449,746	114,737	18,177	582,660
State sources	42,638	-	-	42,638
Federal sources	601,070	-	-	601,070
Total Revenues	1,093,454	114,737	18,177	1,226,368
Expenditures				
Current:				
Food service	979,631	-	-	979,631
Athletics	-	656,482	-	656,482
Book store	-	-	20,430	20,430
Total Expenditures	979,631	656,482	20,430	1,656,543
Excess (Deficiency) of Revenues Over Expenditures	113,823	(541,745)	(2,253)	(430,175)
Other Financing Sources (Uses)				
Transfers in	-	552,646	-	552,646
Transfers out	(66,500)	-	-	(66,500)
Total Other Financing Sources (Uses)	(66,500)	552,646	-	486,146
Net Change in Fund Balances	47,323	10,901	(2,253)	55,971
Fund Balances, July 1	118,298	(10,998)	9,078	116,378
Fund Balances, June 30	\$ 165,621	\$ (97)	\$ 6,825	\$ 172,349

GREENVILLE PUBLIC SCHOOLS
Food Service Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance - Positive (Negative)</u>
Revenues			
Local sources:			
Interest earnings	\$ -	\$ 3,270	\$ 3,270
Sales and admissions	459,300	446,476	(12,824)
Total local sources	459,300	449,746	(9,554)
State sources	42,647	42,638	(9)
Federal sources	462,548	601,070	138,522
Total Revenues	<u>964,495</u>	<u>1,093,454</u>	<u>128,959</u>
Expenditures			
Current:			
Food service	964,423	979,631	(15,208)
Excess of Revenues Over Expenditures	<u>72</u>	<u>113,823</u>	<u>113,751</u>
Other Financing Sources (Uses)			
Transfers out	-	(66,500)	(66,500)
Net Change in Fund Balances	72	47,323	47,251
Fund Balances, July 1	<u>118,298</u>	<u>118,298</u>	<u>-</u>
Fund Balances, June 30	<u><u>\$ 118,370</u></u>	<u><u>\$ 165,621</u></u>	<u><u>\$ 47,251</u></u>

GREENVILLE PUBLIC SCHOOLS
Athletics Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance - Positive (Negative)</u>
Revenues			
Local sources:			
Sales and admissions	<u>\$ 115,500</u>	<u>\$ 114,737</u>	<u>\$ (763)</u>
Expenditures			
Current:			
Athletics	<u>671,400</u>	<u>656,482</u>	<u>14,918</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(555,900)</u>	<u>(541,745)</u>	<u>14,155</u>
Other Financing Sources			
Transfers in	<u>566,898</u>	<u>552,646</u>	<u>(14,252)</u>
Net Change in Fund Balances	<u>10,998</u>	<u>10,901</u>	<u>(97)</u>
Fund Balances, July 1	<u>(10,998)</u>	<u>(10,998)</u>	<u>-</u>
Fund Balances, June 30	<u><u>\$ -</u></u>	<u><u>\$ (97)</u></u>	<u><u>\$ (97)</u></u>

AGENCY FUND

Student Activities—to account for the collection and disbursements of monies used by the school activity clubs and groups.

GREENVILLE PUBLIC SCHOOLS
Student Activities Agency Fund
Statement of Changes in Assets and Liabilities
For the year ended June 30, 2006

	<u>Balances July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances June 30, 2006</u>
Assets				
Cash equivalents, deposits and investments	<u>\$ 255,126</u>	<u>\$ 560,679</u>	<u>\$ 492,060</u>	<u>\$ 323,745</u>
Liabilities				
Accounts payable	\$ 6,486	\$ 94	\$ 6,486	\$ 94
Due to student groups	<u>248,640</u>	<u>560,585</u>	<u>485,574</u>	<u>323,651</u>
Total Liabilities	<u>\$ 255,126</u>	<u>\$ 560,679</u>	<u>\$ 492,060</u>	<u>\$ 323,745</u>

OTHER INFORMATION

GREENVILLE PUBLIC SCHOOLS
Summary of 2005 Taxes Levied and Collected
For the year ended June 30, 2006

	Ionia County	Kent County		Townships
	Otisco	Oakfield	Spencer	Eureka
Taxable Valuations				
Operating	\$ 618,745	\$ 17,353,452	\$ 15,380,895	\$ 32,016,777
Debt Service	980,059	104,424,937	52,217,504	112,313,497
Rates (Mills)				
General Fund				
Debt Service Fund				
Taxes Levied 2005 Rolls				
General Fund	\$ 10,841	\$ 304,054	\$ 269,492	\$ 560,969
Debt Service Fund	6,860	730,966	365,313	786,187
	17,701	1,035,020	634,805	1,347,156
Taxes Uncollected 2005 Rolls				
General Fund	-	152	-	22,016
Debt Service Fund	-	61	-	8,796
	-	213	-	30,812
Taxes Collected 2005 Rolls				
General Fund	10,841	303,902	269,492	538,953
Debt Service Fund	6,860	730,905	365,313	777,391
	17,701	1,034,807	634,805	1,316,344
Delinquent Taxes Collected				
General Fund	-	-	-	-
Debt Service Fund	-	-	-	-
	-	-	-	-
Total Taxes Collected				
General Fund	10,841	303,902	269,492	538,953
Debt Service Fund	6,860	730,905	365,313	777,391
	<u>\$ 17,701</u>	<u>\$ 1,034,807</u>	<u>\$ 634,805</u>	<u>\$ 1,316,344</u>
Taxes Uncollected – June 30, 2006				
General Fund:				
2005	\$ -	\$ 152	\$ -	\$ 22,016
Debt Service Fund:				
2005	-	61	-	8,796
Total Taxes Uncollected	<u>\$ -</u>	<u>\$ 213</u>	<u>\$ -</u>	<u>\$ 30,812</u>

Montcalm County				
Fairplains	Montcalm	Sidney	City of Greenville	Total
\$ 3,135,061	\$ 16,636,014	\$ 482,126	\$136,260,746	\$221,883,816
19,231,103	72,064,572	3,111,075	217,509,052	581,851,799
				17.5214
				7.0000
				24.5214
\$ 54,930	\$ 279,246	\$ 8,447	\$ 2,325,559	\$ 3,813,538
134,616	504,443	21,777	1,522,551	4,072,713
189,546	783,689	30,224	3,848,110	7,886,251
-	9,514	-	35,668	67,350
82	3,801	-	14,288	27,028
82	13,315	-	49,956	94,378
54,930	269,732	8,447	2,289,891	3,746,188
134,534	500,642	21,777	1,508,263	4,045,685
189,464	770,374	30,224	3,798,154	7,791,873
-	-	-	32,754	32,754
-	-	-	3,496	3,496
-	-	-	36,250	36,250
54,930	269,732	8,447	2,322,645	3,778,942
134,534	500,642	21,777	1,511,759	4,049,181
\$ 189,464	\$ 770,374	\$ 30,224	\$ 3,834,404	\$ 7,828,123
\$ -	\$ 9,514	\$ -	\$ 35,668	\$ 67,350
82	3,801	-	14,288	27,028
\$ 82	\$ 13,315	\$ -	\$ 49,956	\$ 94,378

GREENVILLE PUBLIC SCHOOLS
Ionia, Kent, and Montcalm
Counties, Michigan

Auditor's Report On Compliance
For Federal Grant Programs

For the year ended June 30, 2006

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GREENVILLE PUBLIC SCHOOLS

For the year ended June 30, 2006

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Hungerford, Aldrin,
Nichols & Carter, P.C.
CPAs AND CONSULTANTS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

October 27, 2006

The Board of Education
Greenville Public Schools
Greenville, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Greenville Public Schools as of and for the year ended June 30, 2006, which collectively comprise Greenville Public School's basic financial statements and have issued our report thereon dated October 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Greenville Public School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

The Board of Education
Greenville Public Schools
October 27, 2006

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Greenville Public School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Education, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hungerford, Aldrin, Nichols & Carter, P.C.

Certified Public Accountants

Hungerford, Aldrin,
Nichols & Carter, P.C.
CPAs AND CONSULTANTS

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

October 27, 2006

The Board of Education
Greenville Public Schools
Greenville, Michigan

Compliance

We have audited the compliance of Greenville Public Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Greenville Public School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Greenville Public School's management. Our responsibility is to express an opinion of Greenville Public School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Greenville Public School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Greenville Public School's compliance with those requirements.

In our opinion, Greenville Public Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Greenville Public Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Greenville Public School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Greenville Public Schools as of and for the year ended June 30, 2006, and have issued our report thereon dated October 27, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Greenville Public School's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hungerford, Alden, Nichols & Austin, P.C.

Certified Public Accountants

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

GREENVILLE PUBLIC SCHOOLS

For the year ended June 30, 2006

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount
U.S. Department of Education		
Passed through Michigan Department of Education (MDE):		
Title I: 0615300506	84.010	<u>\$560,963</u>
Title IIA: 0605200506	84.367	<u>195,380</u>
Title IID: 0642900506	84.318	<u>10,465</u>
State Plan Self Review 060440	84.027	<u>4,400</u>
Title V: 0602500506	84.298	<u>1,528</u>
Total Passed Through MDE		<u>772,736</u>
Passed through Kent Intermediate School District (KISD):		
Safe and Drug Free Schools and Communities Act:		
2004-05 Program 052860-0506	84.186	<u>18,667</u>
2005-06 Program 062860-0506		<u>9,370</u>
Total Passed Through KISD		<u>28,037</u>
Passed through Macomb Intermediate Schools District (MISD):		
Michigan Integrated Behavior and Learning Support Initiative	84.027A	<u>8,000</u>
Total Passed Through MISD		<u>8,000</u>
Passed through Marquette-Alger Regional Educational Service Agency (RESA):		
Personnel Development 060470	84.027A	<u>10,000</u>
Total Passed Through RESA		<u>10,000</u>

Accrued (Deferred) Revenue July 1, 2005	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2006
	\$519,673	\$560,963	\$498,473	\$62,490
	197,336	192,867	158,114	34,753
	13,207	10,465	10,465	
		3,539	3,539	
	2,317	1,528		1,528
—	732,533	769,362	670,591	98,771
	6,245	6,822 9,370	6,822 9,370	
—	6,245	16,192	16,192	—
		6,007	8,000	(1,993)
—	—	6,007	8,000	(1,993)
		10,000	10,000	
—	—	10,000	10,000	—

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**GREENVILLE PUBLIC SCHOOLS**

For the year ended June 30, 2006

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount
Total U.S. Department of Education		<u>\$818,773</u>
U.S. Department of Homeland Security		
Passed through Michigan State Police (MSP): 2003 Homeland Security, Part II Equipment	97.004	<u>7,437</u>
Total Passed Through MSP		<u>7,437</u>
Total U.S. Department of Homeland Security		<u>7,437</u>
U.S. Department of Agriculture Nutrition Cluster		
Passed Through Michigan Department of Education (MDE): National School Lunch Program: Lunches:		
Fresh Fruit and Vegetable	10.555	2,547
Section 4 – Total Servings – 1950		73,044
Section 11 – Free and Reduced – 1960		<u>351,477</u>
Total Lunches		<u>427,068</u>
Breakfast:		
Total Servings - 1970	10.553	20,542
Free and Reduced – 1970		<u>92,398</u>
Total Breakfast		<u>112,940</u>
Child Care Program:	10.558	<u>5,259</u>
USDA Commodities:		
Bonus Commodities	10.550	7,824
Entitlement Commodities		<u>53,238</u>
Total USDA Commodities		<u>61,062</u>

Accrued (Deferred) Revenue July 1, 2005	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2006
—	\$738,778	\$801,561	\$704,783	\$96,778
		7,437	7,437	
—	—	7,437	7,437	
—	—	7,437	7,437	
		2,547	2,547	
		73,044	73,044	
	407,859	351,477	351,477	
—	407,859	427,068	427,068	
		20,542	20,542	
	86,359	92,398	92,398	
—	86,359	112,940	112,940	—
	3,501	5,259	5,259	
	8,326	7,824	7,824	
	52,616	53,238	53,238	
—	60,942	61,062	61,062	—

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

GREENVILLE PUBLIC SCHOOLS

For the year ended June 30, 2006

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount
Total U.S. Department of Agriculture (Passed Through MDE)		<u>\$606,329</u>
Total Federal Financial Assistance		<u><u>\$1,432,539</u></u>

- Notes:
1. This schedule was prepared using accounting policies consistent with those used in preparing the Basic Financial Statements.
 2. The amounts reported on the R7120, Grant Section Auditors Report, reconcile with this schedule.
 3. The amounts reported on the Recipient Entitlement Balance Sheet, or PAL Report, agree with this schedule for USDA donated food commodities.

Accrued (Deferred) Revenue July 1, 2005	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2006
—	\$558,661	\$606,329	\$606,329	—
—	\$1,297,439	\$1,415,327	\$1,318,549	\$96,778

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

GREENVILLE PUBLIC SCHOOLS

For the year ended June 30, 2006

Section I - Summary of Auditor's Results

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes X None reported
- Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified: Yes X No
- Reportable condition(s) identified that are not considered to be material weakness(es)? Yes X None reported

Type of auditor's report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

 Yes X No

Identification of major programs audited:

84.010 Title I

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

 X Yes No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

GREENVILLE PUBLIC SCHOOLS

For the year ended June 30, 2006

Section II - Financial Statement Findings

No matters reported.

Section III - Federal Award Findings and Questioned Costs

No matters reported.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

GREENVILLE PUBLIC SCHOOLS

For the year ended June 30, 200

Note A - Federal Income Reconciliation

	Grant Expenditures Schedule of Federal Financial Assistance	Federal Revenue Per Financial Statements	Difference
Title I	\$560,963	\$560,963	
Title IIA	192,867	192,867	
Title IID	10,465	10,465	
Title V	1,528	1,528	
MiBLSi	6,007	6,007	
Safe and Drug Free Schools and Communities Act	16,192	16,192	
State Plan Self Review	3,539	3,539	
Personal Development	10,000	10,000	
Homeland Security	7,437	7,437	
Nutrition Cluster	606,329	606,329	
	\$1,415,327	\$1,415,327	—

Hungerford, Aldrin,
Nichols & Carter, P.C.

CPAs AND CONSULTANTS

October 27, 2006

The Board of Education
Greenville Public Schools

The following comments pertain to our audit of the financial records of Greenville Public Schools as of and for the year ended June 30, 2006. The comments are made in accordance with Statement on Auditing Standards No. 61 "Communication With Audit Committees" which requires that in certain audits, certain matters are to be communicated to those who have responsibility for oversight of the financial reporting process. The communications required by this statement, if pertinent to the examination, are as follows:

1. Auditor's Responsibility Under Generally Accepted Auditing Standards.
2. Significant Accounting Policies.
3. Management Judgments and Accounting Estimates.
4. Significant Audit Adjustments.
5. Other Information in Documents Containing Audited Financial Statements.
6. Disagreements With Management.
7. Consultation With Other Accountants.
8. Major Issues Discussed With Management Prior to Retention.
9. Difficulties Encountered in Performing the Audit.
10. Uncorrected Misstatements (Passed Audit Adjustments).

The communications specified by this Statement are incidental to the audit and are not required to occur before, nor do they affect, our auditor's report on the District's financial statements.

The following are the matters to be communicated by SAS No. 61 based on our observations during the course of our audit of the financial statements and our review and evaluation of the internal control system of Greenville Public Schools:

Auditors Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Greenville Public School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Greenville Public School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Greenville Public School's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Greenville Public School's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Greenville Public School's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Greenville Public Schools are described in Note A to the financial statements.

Difficulties Encountered In Performing The Audit

We encountered no significant difficulties in performing the audit of the financial statements of Greenville Public Schools for the year ended June 30, 2006. We found the internal control structure and accounting system to be basically adequate and operating in the manner intended. We did spend additional audit time in the property tax collection and capital asset record keeping area, in order to insure that the District was receiving complete and timely payments from its taxing authorities and to insure that District capital asset and depreciation records were complete and up to date. Both these issues are discussed later in this letter in the suggestions/recommendations area.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. During the course of our audit the following adjustments of a significant nature were made to the accounting records of the District to bring the balances to those presented in the financial statements:

General Fund

1. \$67,350 to record 2005 delinquent personal property taxes receivable at June 30, 2006. Uncollected delinquent personal property taxes from prior years had not been previously accrued by the District or it's auditors.
2. \$13,399 to record property taxes due from the City of Greenville (\$4,691) and properly allocate taxes collected from the City in the 2005-06 fiscal year.
3. \$100,011 to adjust the portion of the General Fund's fund balance designated for land transactions to actual at June 30, 2006.

Debt Service Fund

1. \$27,028 to record 2005 delinquent personal property taxes receivable at June 30, 2006.
4. \$128,463 to record property taxes due from the City of Greenville (\$11,421) and properly allocate taxes collected from the City in the 2005-06 fiscal year.

Building and Site Fund

1. \$25,756 to record the transactions of the new bond issue for premium, discount and bond issuance costs.

Proposed Audit Adjustments

There were no material adjustments proposed during the audit not recorded by Greenville Public Schools.

Suggestions And Recommendations

We offered suggestions and recommendations regarding the day-to-day operations of the accounting system of Greenville Public Schools to the Business Manager and District accounting personnel as the topics arose during the course of our audit fieldwork. Hopefully, these suggestions will ease the day-to-day operations of the business office and assist in more efficient monthly and year-end financial record keeping and reporting. Other recommendations that merit further discussion follow:

- We urge District accounting personnel to communicate directly with the municipal taxing units collecting property taxes for the District to insure a proper understanding of the type and final adjusted amounts of taxes levied for the District, and to insure that the units are making the required payments of taxes collected on the District's behalf, and that these units are informing the District of each tax payment's nature to insure the proper recording and allocation within the District's funds and accounts. We spent time during the course of our audit with the District Business Manager and the City of Greenville Treasurer's office personnel to initiate and facilitate this process for the future.
- We observed during the course of our audit of the District Student Activity Fund that many of the accounts maintained there are actually scholarship funds, which require a different oversight and accounting treatment than do student funds. We recommend that these funds be separated from the Student Activity Funds, placed in separate deposit and investment accounts, and be properly accounted for under Generally Accepted Accounting Principles and State of Michigan FID standards.

Other Comments

The General Fund balance of the District increased by \$28,866 to \$1,704,058 at June 30, 2006, which represents approximately 5.7 percent of the District's 2006-07 expenditure budget, equal to the 5.7 percent balance on hand at June 30, 2005. Maintaining a fund balance of 10 to 20 percent of the ensuing year's expenditure budget is advisable for Greenville Public Schools. This gives the District more stable operating funds during the year, helps avoid or reduce the necessity of borrowing for short-term cash flow purposes and acts as a buffer against the uncertainty of state aid revenues accruing to the District. In addition, employee benefit costs are expected to increase significantly in the next few years, which will require the use of fund balance reserves considering the expectation of small (or no) growth in state aid revenues.

Our audit this year was completed under the requirements of Statement on Auditing Standards No. 99 "Consideration of Fraud in a Financial Statement Audit" (SAS No. 99), which requires both auditors and their clients to more directly and openly assess those areas within a school district that might be susceptible to fraudulent activity, which would normally include those areas outside the central office that handle cash, inventory, supplies, etc. This is an important audit standard that requires increased face-to-face discussions/interviews with client personnel and extensive documentation of our findings for future reference. We found that Greenville Public Schools has a very extensive network of internal controls within its accounting and record keeping system, and found those tested this year to be operating in the manner intended. Working with District business office personnel, we will be testing other control areas each year as a part of our audit, with suggestions and recommendations to follow the testing each year, to assist the District in maintaining and improving its systems.

This communication is intended solely for the information and use of the Greenville Public Schools Board of Education, administration and others within the organization. We have furnished a copy of this letter to the Michigan Department of Education as an enclosure with the audit report as required by the State of Michigan.

We appreciate the opportunity to provide financial auditing and advisory services to Greenville Public Schools and hope to continue to do so in the future. We also appreciate the dedication and cooperation of the District's administration and accounting personnel in performing their functions and in assisting us in completing ours. If there are any questions regarding the audit report, or the attached communications, we will be happy to address them.

Hungerford, Alden, Nichols & Barten, P.C.

Certified Public Accountants